
Credit Card Lending Program

Examination Objectives

To determine if the policies, procedures, and controls regarding credit cards adequately ensure safety and soundness, profitability, and compliance with laws and regulations.

To determine if officers and employees are qualified and performing their duties in a manner that ensures safety and soundness and compliance with policies and procedures.

To determine if financial records and management reports provide accurate and necessary information to management and directors.

To determine the adequacy of the audit and internal loan review function in this area.

To evaluate the credit card portfolio for credit quality.

To initiate corrective action when deficiencies exist that could affect safety and soundness, or when violations of laws or regulations have been noted.

Examination Procedures

Level I

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1. Review scoping materials related to credit card lending.

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2. Obtain from the regulator assigned Thrift Activities Regulatory Handbook Section 210, Lending Risk Assessment, the reports and schedules applicable to the credit card area. Review management reports, especially exception reports, related to this area. Assess the adequacy of the reported information.
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3. Evaluate the institution's policies and procedures for adequacy of underwriting controls and monitoring, documentation requirements, and collection procedures through:

- Review of policy statements, underwriting guidelines and manuals;

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- Interviews with management; and
- Review of minutes or recaps of the minutes related to this area.

4. Determine whether objectives and related policies are reviewed periodically with any changes communicated to the appropriate personnel.

5. Complete the general questionnaire and address any negative responses.

6. Review the qualifications, capabilities, and expertise of credit card loan officers in relation to their responsibilities.

7. Determine whether the association corrected deficiencies mentioned in prior examination reports and audit reports.

8. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

Level II

9. Review the reconciliation of the subsidiary ledgers for credit card loans to the general ledger. Investigate any large reconciling items.

10. If internal policies, procedures, and exception reports are determined to be unreliable, select borrowers for review using an appropriate sampling technique. Also perform testing procedures if the institution mass markets credit cards. Review the rejection rates for credit card applications received through mass marketing. (Coordinate with the

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regulator assigned to Lending Risk Assessment.) Obtain minimal samples of all types of accounts. (For details on sampling, refer to Section 209 of the Thrift Activities Regulatory Handbook.) Include:

- A sampling of credit card accounts opened since the preceding examination;
- Accounts of employees, officers, directors, major stockholders, and their interests;
- Accounts of officers and directors of other institutions;
- Accounts in excess of their credit limits; and
- Accounts with unusually large credit limits.

11. Analyze credit files of borrowers for credit quality (earnings, indebtedness, credit history, loan modifications, overline status) and compliance with the loan policy.

12. Review past-due accounts and charge-offs.

- Determine if charge-offs are performed in accordance with the institution's policies and regulatory requirements. Review the past-due account report and test for accuracy. Individual accounts not charged off in accordance with regulatory requirements should be reviewed and discussed with management.
 - Review the institution's policies regarding the accrual of interest on past-due loans. Determine whether the accrual policy conforms to Generally Accepted Accounting Principles (GAAP).
 - Review procedures regarding the automatic reissuance of expired cards to obligors. Ascertain whether procedures preclude automatic reissuance of expired cards to obligors with charged-off balances or an otherwise unsatisfactory credit history with the institution.
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13. Determine if the institution has adequate inventory controls over unissued or unmailed cards.

- If the institution maintains an inventory of unissued credit cards, determine if the cards are under dual control and audited regularly.

14. Review instances of merchant, customer, or employee fraud that occurred between examinations.

- Determine whether suitable internal controls were instituted to prevent a recurrence.
- Ascertain whether applicable regulatory and law enforcement authorities were notified of criminal activity.

15. Determine if collection practices are proper and in conformance with policy. Review written collection procedures and test check customer contact records.

16. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

Examiner's Summary, Recommendations, and Comments

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